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SUBJECT: UZBEKISTAN: A STEP AWAY FROM COTTON?

REFS: TASHKENT 1204
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11. (SBU) SUMMARY. On October 20 the President of Uzbekistan signed a decree reducing cotton planting areas in favor of food crops. The decree is a response to the challenges created by this year's water shortage and the growth of food prices on world markets. Beginning in 2009 raw cotton production will decrease from 3.4 to 3.2 million metric tons, and 75,800 hectares (out of a total 1.3 million) of land currently used for cotton will be used instead for grain, vegetables, and other food crops. Although in absolute terms the size of this land conversion is small, industry experts believe that the decree is an important "first step" in the right direction. At the same time, industry experts expressed concern that another presidential decree on enlargement of private farms will in practice mean redistribution of land in favor of large farms. This could put small farmers out of business and lead to increased unrest, particularly in the Fergana Valley. END SUMMARY.

COTTON LANDS TO BE DECREASED

12. (SBU) On October 20, 2008, President Karimov signed a decree "On Measures to Optimize Sown Areas and Increase Food Crop Production." In accordance with this decree Uzbekistan will decrease raw cotton production from 3.4 to 3.2 million metric tons beginning in 2009 and will decrease the land devoted to cotton by 75,800 hectares. (NOTE: Uzbekistan currently has 1,300,000 hectares of land devoted to cotton cultivation.) The land withdrawn from cotton cultivation will be devoted instead to grain (48,800 hectares) and to vegetables and other food crops (27,000 hectares). The decree states that this decision was made as a result of this year's water shortage, the rise in food prices on world markets, and Kazakhstan's temporary ban on grain exports to Uzbekistan last summer. Consequently, the decree

aims to expand food crop production volume and variety to meet internal demand. Local administrative authorities are charged with implementation and with supplying the necessary seeds to farmers.

¶3. (SBU) Sources in the Ministry of Agriculture (MOA) told us that this decree is an important "first step in the right direction." The cost of cotton production is growing while its share of export earnings is shrinking. At the same time, the volume of expensive and unforeseen grain imports is growing. Cotton production requires 3-4 times more water and 2-3 times more fuel than grain production. In addition, Uzbekistan's inefficient and crumbling production, planning, and irrigation systems leave no choice but to reduce the area used for cotton. Some reports -- unverified -- say Uzbekistan is losing upwards of 20,000 hectares of arable land per year. Our MOA contacts say that lands with a limited water supply will be transferred from cotton to food crops.

TAKE FROM THE POOR, GIVE TO THE RICH

¶4. (SBU) Our MOA contacts as well as some industry experts expressed concern regarding another Presidential decree that will favor larger farms. This decree, which was signed in October 6 and did not receive wide publicity, sets the minimum size of farms to 100 hectares for those planted with cotton or grain and 20 hectares for those producing other food crops. (NOTE: 20 hectares is roughly equal to

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50 acres, which is at the lower end of what is considered to be a small farm in the U.S. END NOTE) Already there have been reports that local governors and authorities are forcing smaller farmers to transfer their lands to larger farms on a "voluntary basis." Implementation of this decree could provoke discontent among farmers, especially in the Fergana Valley. So far the GOU has not commented officially on the reasons behind this decree.

STATE ORDERS STILL RULE

¶5. (SBU) Uzbekistan's agricultural sector still operates under the compulsory "state order" system that it inherited from the Soviet Union. State-owned monopoly purchasers set the prices -- sometimes not even covering production costs -- and farmers have little recourse. Low procurement prices have created considerable incentives for under-reporting of production levels and illicit exporting of cotton. There is no private land ownership; land can only be leased. Local government officials have considerable discretion over the rights of private farmers and can terminate their leases at will. Private agriculture is also held back by a shortage of machinery and fuel supplies. The government still conscripts students and children to pick the cotton crop by hand (Ref C).

THE DECLINE OF COTTON

¶6. (SBU) Before 1991 Soviet central planning forced Uzbekistan's agricultural sector to focus almost entirely on cotton. The republic produced 5.5-6 million metric tons of cotton and 3-3.5 million metric tons of cotton fiber annually. Intensive cotton production caused serious environmental

casualties, including the Aral Sea disaster.

17. (SBU) In the early 1990s cotton contributed roughly 66 percent of Uzbekistan's hard-currency export earnings. In recent years, however, poor harvests as well as the development of other export-oriented sectors of the economy have caused a sharp fall in cotton's share of export earnings. In 2007 Uzbekistan harvested 3.6 million metric tons of cotton and produced 1.1 million metric tons of cotton fiber. This year it is expected that the cotton harvest will decline further to no more than 3.2 million metric tons and that cotton fiber production will decrease correspondingly to approximately 1 million metric tons. In 2007 cotton contributed about 12 percent of Uzbekistan's export earnings. (See also Refs A and B.)

18. (SBU) The presidential decree increasing grain and food production at the expense of cotton is not unprecedented. Shortly after independence the GOU aimed to become self-sufficient in grain by 1996. The area sown with grain increased from 0.974 to 1.84 million hectares (about 40 percent of total planting area), and the area devoted to cotton decreased. The goal was to produce 5-7 million metric tons of grain annually and eliminate the need for imports. This target has yet to be reached. Moreover, the quality of Uzbek grain has been poor due to soil depletion. By 1999 the area given over to grain had dropped to 1.7 million hectares. According to official figures, in 2007 the country produced 6.2 million metric tons of grain, with the majority of that going to fodder. Uzbekistan imported 2.4 million metric tons of food quality wheat. In 2008, official projections for wheat imports are 3 million metric tons.

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COMMENT

18. (SBU) Nearly 60 percent of the Uzbek population relies on agriculture for their income. Also, the decree does nothing to free the individual farmer from the system of state orders. If anything, the second decree on minimum farm size is a step backwards towards the "bigger is better" concept that characterized the Soviet system of collective and state farms. The GOU has yet to show that it wishes to make real progress in reforming the agricultural sector. To make progress in this area the GOU will need to improve legislation on land ownership, eliminate the "state order" system, offer fair procurement prices, and liberalize marketing channels. Only then will individual farmers have a chance to act on their own, make their own decisions, and thrive or fail on their own merits.

NORLAND